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Overconfidence Behavioral Bias in Working Capital Management and Performance of Small and Medium Enterprise in Ghana: A Conceptual Paper

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Abstract

The concept of overconfidence is well understood in financial market and corporate decision as individual investors and managers of large corporations prone to overconfident bias. This paper is the first to conceptualize overconfidence bias in working capital management and performance of Small and medium enterprise by employing qualitative case study inquiry to gain insight and small and medium enterprise (SME) managers overconfident behavioral. This paper argues that overconfidence bias can distort working capital investment with the possibility of overinvestment working capital inventory if SME managers have enough internal equity in anticipation of higher performance.

Keywords: overconfidence small and medium enterprise, working capital management, performance

Introduction

Small and medium enterprises (SMEs) are globally recognized as the engine of socio-economic transformation, growth and sustainable development through job creation and contribution to GDP. SMEs contributions largely depend on their financial performance directly influenced by how they manage working capital, which is their short-term investment portfolio of net current assets.

As most SME managers are not well conversant with the standard working capital management operations, they manage working capital subjectively based on their experience and preference (Filbeck & Lee, 2000) by relying on their experience and preference (Pham, 2013; Bandara & Rathnasiri, 2016). Yet traditionalist, in the fully glary of these stylized facts, still conceptualize firm and industry characteristics, market factors determinants of WCM (Palombini & Nakamura, 2012; Baños-Caballero et al., 2014).

Even though subjective decisions distort working capital management and may expose SME managers to overconfidence bias, it has not been given proper attention so we are not informed on overconfidence bias proper application in working capital management and performance.

Fortunately, overconfidence bias tends to influence individual investors decision on the financial market, top executive's corporate policies and many others (Ben-David et al., 2010; Kent & Hirshleifer, 2015). Because overconfident people believe to have superior abilities and skills, underweight the likelihood of their failure and overly trust in accuracy of their decisions, they perceive